

**City of Detroit**

**Office of the Auditor General**

**Strategic Plan**

**For the Calendar Years 2000 and 2001**

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I

## INTRODUCTION

## Letter from the Auditor General

Two years ago, the Office of the Auditor General (OAG) developed its first Strategic Plan (Plan) to address the significant opportunities and challenges facing this office. The 1998 Plan captured in one document the universe of auditable entities and a comprehensive strategy to ensure that the OAG targets its audit coverage to areas of importance and concern to the City, and meets the requirements of the Charter. One concern emanating from that Plan is the Charter requirement that the Auditor General perform an audit of financial transactions for every City agency at least once every two years or as otherwise directed by City Council. City Council did give its tacit approval to the Plan, which may satisfy the Charter requirement.

On the other hand, the OAG did not fully meet its goals during the period covered by the Plan. This points out the need for annual plans that address the “unfinished business” from previous years, prioritized audits for the current year, and follow-up audits as required.

The OAG does not plan to conduct audits of every City department every two years. Increasing demands on our limited resources suggest a risk-based approach to our audit plan. It is, therefore, important that our annual audit plan be approved by City Council, as provided by the City Charter.

This Plan builds on the previous Plan by recognizing difficulties we have encountered, changes that have occurred, and how we plan to address those issues over the next two years.

This Plan sets forth the broad goals and objectives for implementing the OAG mission of promoting economy, efficiency, and effectiveness, and protecting against fraud, waste, and abuse in City government over the next two years. It also focuses on long-term goals and objectives related to providing quality products and services that add value to City operations. In addition, it addresses the importance for developing and maintaining OAG resources effectively. This Plan includes a description of the means, strategies, and resources that are needed to achieve our goals, and identifies key external risk factors beyond the OAG’s control that affect our ability to accomplish stated goals. It also serves as the foundation for the annual planning process of the OAG.

Besides providing a roadmap for the OAG to follow, this Plan provides an opportunity to apprise the City Council, the Mayor, City agencies, and the general public of our intentions as well as our challenges. Further, it increases our accountability by making public our goals and objectives. The OAG recognizes that strategic planning, supported by performance goal setting and measurement, is an ongoing and evolutionary process that requires continuous monitoring. We further recognize the importance of results-oriented goals, consistent with the Mayor’s Goal Based Governance approach and his Four Cornerstone Goals.

As in the past, we have set very ambitious, yet attainable goals. We recognize that these goals will not be attained if we take a passive approach towards their attainment. We must be both proactive and persistent. Some of our goals, such as the development of a world-class audit shop, will not be attained within the next two years. However, all are attainable within five years if we dedicate ourselves to that end.

Our role is to maximize the performance and accountability of City government for the benefit of our citizens. We also seek to further the concept of “good government.” Our efforts are focused on two sides of government: its business and its missions. On the business side, we focus on improving economy and efficiency. On the mission side, we focus on improving effectiveness.

Two underlying assumptions in the establishment of the goals and the development of the Plan are that our manpower shortages will be addressed, and that technical expertise will be accessible. The City has experienced a human capital crisis in recent years. Record low unemployment rates, attractive retirement packages and recruitment offers outside City government have exacerbated this crisis to a point that many City government services have been reduced.

The City needs quality audits. This Plan considers the elements required to transform the OAG into a world-class audit shop. This means incorporating “best practice” methodology and techniques into our audit process. Best practice involves the people, the process, and the technology. This Plan sets forth a strategy to address the OAG’s deficiencies in these essential areas.

## **People**

The Office of the Auditor General is, first and foremost, its people. The quality of our reports is a reflection of our talent. Quality personnel are the key to quality products and services. Our biggest challenge is to overcome the deficiency in human capital, our most important resource.

During the past two years, it has been quite apparent that we do not have the resources we need within the OAG to accomplish our goals. We have two-thirds the number of auditors that we had ten years ago. Of the twenty auditors on the staff ten years ago, only four remain. Of the eighteen auditors on the staff five years ago, only seven remain. Even as we operate with fewer resources than in previous years, we face greater demands and more complex challenges.

Six of our auditors joined the staff within the last three years. During that time, we have provided hundreds of hours of training to our auditors. However, formal training has its limitations. The old adage that there is no substitute for practical experience is aptly applied to the field of internal auditing.

The process of training new auditors has been a lengthy one. Despite the hundreds of hours of formal education we have provided, many auditors will require three to five years or more of additional experience before they are capable of functioning independently. A primary reason for this slow process is the lack of experienced supervisors from whom the new auditors can learn.

The development of our newer staff people is greatly influenced by the quality of the supervision they receive. In many cases, our leaders cannot train new staff members because the leaders themselves lack the necessary experience and training. Today, few of our auditors can conduct a performance audit properly; and we do not possess the capability to adequately conduct an information technology audit.

Many audits have taken several months to complete, when only a few weeks were projected. Some reports were never issued. Other reports have had to be redone. Many staff members are in the process of learning the essentials of developing the audit plan and the audit program, effectively interviewing auditees, identifying residual risks, and developing audit reports. As a result, our productivity has lagged.

The next annual report, which we will compile in March 2001, will discuss these challenges as well as this year’s achievements. This Plan considers the means by which we plan to overcome these challenges to achieve our immediate objectives.

Although I have been very concerned about the City’s inability to attract a sufficient number of highly qualified auditors, recent changes in residency laws and salary ranges have made me optimistic that we can fill most of the vacant “Auditor” positions within the next few months. The

“Senior Auditor” positions, on the other hand, are not subject to the relaxed residency requirements and, thus, may be more difficult to fill in the immediate future.

I have taken steps, in conjunction with the Human Resources Department and the unions, to establish performance measurement and reward systems to recognize and reward the kind of performance we wish to encourage for those entering the “Auditor” classification. The OAG must make many fundamental changes to our processes in order to effect the desired changes in our results. But neither the changes nor the results will occur overnight.

We have much to do. During the next two years, I plan to lay the foundation to elevate the OAG to world-class status.

“World-Class Status”, as used here, is not a casual use of the term. It is intended to denote a well managed, highly trained, and highly responsive professional staff with several certified auditors utilizing state-of-the-art audit techniques and equipment, producing quality value-added reports, in accordance with government auditing standards, as validated by an external peer review. The most valuable asset I can leave the City five years from now is a world-class internal audit organization, the development of which is my most important task and my greatest challenge.

A few months ago, I initiated weekly voluntary “Lunch and Learn” sessions. During the sessions, we discuss professional certification examination issues, audit issues, office procedures, issues being addressed by City Council and the administration, and other topics. The participation has been very encouraging.

### **Process**

The OAG Strategic Plan calls for a shift from the traditional/historical approach to a proactive value-added approach as follows:

<u><b>Traditional Approach</b></u>	<u><b>Value-added Approach</b></u>
<ul style="list-style-type: none"><li>▪ <b>Reactive</b></li><li>▪ <b>Policemen of control</b></li><li>▪ <b>Detection</b></li><li>▪ <b>“Nit-picking”</b></li><li>▪ <b>A necessary evil</b></li><li>▪ <b>Control at all costs</b></li></ul>	<ul style="list-style-type: none"><li>▪ <b>Proactive – Quality driven</b></li><li>▪ <b>Process improvement oriented</b></li><li>▪ <b>Prevention</b></li><li>▪ <b>Risk-based audit process</b></li><li>▪ <b>A resource</b></li><li>▪ <b>A training group</b></li><li>▪ <b>Control, quality and efficiency</b></li></ul>

Also, later this year, the format of OAG financial related audit reports will be modified to reduce the amount of time required for writing.

In addition, the report review process, which has proven to be extremely cumbersome, causing reports to take several months to be issued, will be streamlined. Report issuance will be given the highest priority, and may require the brief use of auditors and managers engaged on other projects.

Further, we have established an internal quality assurance team to ensure the conformance of the audit planning, fieldwork, and reporting with government audit standards, as promulgated by

the U.S. General Accounting Office (GAO). We will also conduct an internal review of our office in 2001, to determine our readiness for an external peer review in 2002.

**Technology**

By utilizing automated working papers and computer assisted auditing techniques, we will incorporate state-of-the-art technology into our audit processes. We plan to implement these changes within the next three months.

The OAG can clearly make a significant and positive difference in the operations of City government. This Strategic Plan details the goals and strategies that, I believe, will direct us toward that end as well as toward world-class status.

II

## OVERVIEW



## **MISSION, VISION, RESPONSIBILITIES, AND AUTHORITY**

### **Our Mission Statement**

The mission of the Office of the Auditor General (OAG) is to act as an independent, full-service appraisal function to examine and evaluate City activities in order to improve the accountability for public funds and to improve the operations of City government. We promote the economy, efficiency, and effectiveness of City government, and protect against fraud, waste, and abuse, by conducting independent audits, investigations, and evaluations; by keeping the City Council and the Mayor fully and currently informed of our work; by committing to total quality; by adhering to the professional standards of the auditing profession; and by promoting an atmosphere of mutual trust, honesty, and integrity among OAG staff and the people we serve.

### **Our Vision Statement**

Our vision is of a world-class audit agency built upon professional excellence and ethical standards, driven by the needs and expectations of our customers, and flexible enough to anticipate and react to their changing needs, including:

- Value-added services with a strong customer focus, accountable to City government and the citizens of the City of Detroit;
- Noneconomic value by helping to protect the reputation, integrity, and the professionalism of City government.

We are committed to the citizens of Detroit to promote good government, and to create an environment where our employees have an opportunity to learn and excel and are proud of their work.

### **Responsibilities and Authority**

The OAG has the responsibilities and authority, as stated in Section 4-205 of the Charter of the City of Detroit to make audits of the financial transactions of all City agencies; to make a report of the financial position of the City after the close of each fiscal year; to investigate the administration and operation of City agencies; and to make reports to City agencies of irregularities of practice and erroneous accounting methods.

The OAG's primary responsibilities include the examination and evaluation of the adequacy and effectiveness of the City's system of internal control and the quality of performance in carrying out assigned responsibilities. This entails the following:

- A review of the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information;
- A review of the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations that could have a significant impact on operations and reports;
- A review of the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
- An appraisal of the economy and efficiency with which resources are employed;
- A review of operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.

## **PURPOSE AND OBJECTIVE**

The role of the Auditor General is to provide auditing services to City government as mandated by the Charter of the City of Detroit (Appendix A); and to assist members of the organization in the effective discharge of their responsibilities. To this end, we furnish our customers with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed. One constant OAG audit objective is to promote effective control at a reasonable cost. The members of City government assisted by the OAG include those in the executive and legislative branches of government.

Government officials and employees are accountable to the citizens of the City of Detroit for the proper handling of public funds and are responsible for managing City resources economically, efficiently, and effectively. OAG audit reports provide a continuing flow of information to assist the City Council in its oversight of individual City agencies and funds, including the general fund with an annual budget of over \$1.4 billion. OAG audit reports also provide citizens with a measure of accountability and assist departmental administrators by providing an independent and objective evaluation of selected aspects of their operations. The OAG's overall goal is to improve accounting and financial reporting practices, and to promote economy, efficiency and effectiveness in City government.

Our audit activities are performed in accordance with generally accepted auditing standards of the American Institute of Certified Public Accountants, Government Auditing Standards issued by the U.S. General Accounting Office, and Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

## **ORGANIZATION AND OPERATION**

The OAG is under the direction and control of the Auditor General, Joseph L. Harris. Mr. Harris is the principal executive and has ultimate responsibility for OAG policies and practices.

As provided in the City Charter, a Deputy Auditor General may be appointed by the Auditor General to act as his principal aid in carrying out both the audit activities and management responsibilities of the OAG. The Auditor General appointed Angie Chester as Deputy Auditor General.

The OAG conducts financial related audits and performance audits of the City's executive and legislative branches of government. The OAG also performs specific reviews in response to City Council requests.

The schedule of OAG team members, effective June 30, 2000, is presented on the next page.

A chart depicting our organizational structure is presented in Appendix K.

**OFFICE OF THE AUDITOR GENERAL  
TEAM MEMBERS**

Joseph L. Harris, CPA, CIA Auditor General

Angie Chester, CPA, CIA Deputy Auditor General

Daniel Dean, CPA, CIA Chief Auditor

Ezza Brandon, Secretary

Principal Accountants

Richard Drumb, CPA

Walter Griggs

David Koch

Jeffrey Vedula, CPA

Senior Accountants

Sampson Brown

David Gates, CPA

Evans Koskos

Ardrenna Lenton

Nadine Lett

Steven Pyles

Tony Smith, CPA, CIA

## **TYPES OF ASSIGNMENTS PERFORMED**

### **Financial Related Audits**

Financial related audits include determining whether (1) financial information is presented in accordance with established or stated criteria; (2) the entity has adhered to specific financial compliance requirements; or (3) the entity's internal control structure over financial reporting and/or safeguarding assets is suitably designed and implemented to achieve the control objectives.

### **Performance Audits**

A performance audit is an objective and systematic examination of evidence for the purpose of providing an independent assessment of the performance of a government organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision-making by parties with responsibility to oversee or initiate corrective action. Performance audits include **economy and efficiency** and **program** audits.

### **Investigations and Special Reviews**

Investigations and special reviews are limited scope audits and involve the examination of specific components of an operation or a fund, rather than a more comprehensive review. These limited scope audits may result from City Council requests, newspaper reports, and information received from City employees, vendors, or citizens.

### **Analyses**

Analyses include compilations and research, often utilizing data provided by others, for the purpose of collecting, comparing and reporting on programs and activities or funds. Analyses may result from requests by City Council, agencies, or citizens.

### **Follow-up Audits**

Follow-up audits are limited scope reviews performed six to twelve months after the release date of an audit report. The follow-up audits are performed to determine the progress the auditee has made to comply with recommendations, and to provide users of the audit report with timely information.

## **VALUE OF AUDIT REPORTS**

### **To the City Council**

OAG reports provide objective, unbiased, and independently developed information and evaluations that members of the City Council can use to make informed decisions with confidence. The OAG also responds directly to requests from the City Council to review activities, programs, or funds not included in the scope of scheduled audits.

### **To the Auditee**

OAG reports provide objective, unbiased, and independently developed information and evaluations about the auditee's operations that can be used by management to improve its methods of operating. OAG recommendations, when implemented, frequently result in more economical, efficient, and effective programs; and improved internal controls and accountability over City assets, revenues, and expenditures.

### **To the Citizens of the City of Detroit**

The citizens have a right to know the manner in which money, paid to the City in the form of taxes, fees, and shared revenue, is accounted for. OAG reports contain findings that identify ineffective and inefficient methods of operation, and provide part of the system of checks and balances expected by citizens for government operations.

## **Recipients of Audit Reports**

Financial related audits, in accordance with the City Charter, will be addressed to the City Council and a copy will be filed with the Mayor. In addition, copies of reports will be provided to the following:

- Audited Departments and subunits, as required
- Budget Department
- City Clerk
- Finance Department
- Municipal Reference Library
- State of Michigan Treasurer's Office
- Anyone who specifically requests the particular audit report

Performance audit reports will be addressed to the audited entity. In addition, copies of the report will be provided to:

- Budget Department
- City Clerk
- City Council
- Finance Department
- Mayor
- Municipal Reference Library
- State of Michigan Treasurer's Office
- Anyone who specifically requests the particular audit report

The audit report is the formal written contact the OAG has with the City Council. In addition, the OAG routinely provides briefings to City Council when Council expresses a particular interest in specific topics or audit reports.

## **FOLLOW-UPS TO AUDIT REPORTS**

### **Auditee Response to Audit Reports**

At the conclusion of an audit, audit findings and recommendations are discussed with the auditee. The auditee, then, has two weeks to prepare a written response to each of the findings. The audit findings and recommendations combine to form the audit report. The auditee's responses are attached to the report.

### **Finance Director Response to Audit Reports**

Pursuant to Section 4-205.5 of the City Charter, the Finance Director submits a formal response covering all audit findings and recommendations to City Council within ninety days after the release of each audit report. The response should contain:

1. action completed;
2. recommendations to be complied with; and
3. contested findings and recommendations.

Copies of these responses are also sent to the Auditee Management, the Office of the Mayor, and the OAG.

Each response should indicate the auditee's agreement or disagreement with each finding and related recommendation. If in agreement, the response is to:

1. state the actions previously taken to address each finding and recommendation and when each action was completed; or
2. state what actions will be taken to address each finding and recommendation and when such actions will be completed.

If the audited entity is contesting an audit finding or recommendation, the entity notes the specific area of disagreement and reason(s) for disagreement.

### **OAG Follow-ups on Material Findings**

Audit reports which contain material findings and recommendations will be routinely followed up with a limited scope review six to twelve months after the release date of the audit report. In this way, the OAG can review the progress the auditee has made to comply with the recommendations and provide users of the audit report with timely information.

### **Subsequent Audits**

The preparation for subsequent audits begins with a preliminary analysis, which includes reviewing the disposition of prior audit recommendations. The audited entity's official response to the prior OAG audit includes information explaining how it plans to comply with the OAG findings and recommendations. Therefore, the OAG is able to review the status of all of the prior audit findings and recommendations. When compliance has not been achieved and the facts are substantially the same as before, the OAG restates the audit finding and recommendation(s) in the current report.

**III**

## **STRATEGIC PLAN**



## **2000 – 2001 GOALS**

The Auditor General is determined to provide timely and relevant audit services. We have measures to monitor our progress in meeting these goals. We have also developed procedures to improve the quality of our audit services and reports, develop and train all team members, and utilize new audit technology. In addition, we have recently developed procedures to improve the recruitment process for professional staff.

City Council has approved our requests for “Auditor” classifications for the OAG professional staff. This classification will recognize the distinction between the “Auditor” and the “Accountant” classifications. The new positions also provide incentives for professional certification and continuing professional education.

Recognizing that limited staff resources will not allow us to complete the goals we have set for ourselves, we plan to supplement our staff with outside professionals to provide supervision and training to our team members in the art of performance auditing, as circumstances require.

This Strategic Plan discusses six goals as enumerated below:

During the years 2000 and 2001, the OAG plans to:

- Improve the auditing and consulting capabilities of the OAG staff;
- Improve the quality and timeliness of audit reports;
- Conduct Comprehensive Annual Financial Report (CAFR) Readiness Audits;
- Complete a minimum of ten performance audits and ten financial related audits in the calendar year 2000;
- Complete a minimum of ten performance audits and ten financial related audits in the calendar year 2001;
- Identify a minimum of \$10 million of annual expense reductions and/or revenue opportunities for the City.

The OAG sometimes has to respond to external requests that were not planned for in our annual work plan. The requests often require immediate responses and shifting of work assignments. Some examples of external requests are: City Council inquiries and requests; citizen requests and concerns; City employees and vendor concerns and allegations; other high priority requests for audits, evaluations, and investigations. Allegations received from citizens, City employees and vendors need to be carefully evaluated to determine whether opening an investigation is warranted. Since the initial information provided by an allegation is frequently insufficient to form the basis for opening an investigation, we often must “test” the information with key interviews or file reviews. The results of these activities are then compared to the allegation and a determination is made to either open an investigation or close the complaint file. The OAG must evaluate the merits of allegations on which it will expend time and effort while maximizing value to the City.

To ensure that we conduct our audits in needed areas and provide adequate coverage to the City, we will emphasize a more formal evaluation of the benefits of continuing an audit at the end of the preliminary survey or initial stage of an audit. The scope of the audit will then be appropriately adjusted. For those audits that we decide to discontinue, we will reallocate resources to higher risk audit areas.

To summarize our two-year strategic outlook, we believe our strategies and initiatives provide us with an effective framework to meet our short-term challenges and continue to provide increasing value to City government and the citizens of the City, in a manner that is consistent with our Charter mandate.

In the remaining pages of this section, we provide information relative to the six primary goals included in our Strategic Plan.

## **Goal # 1: Improve the Auditing and Consulting Capabilities of the OAG Staff**

### **Recruit High-Caliber Talent from Both Internal and External Sources**

**Standard 540 ~ Personnel Management and Development** of the Standards for the Professional Practice of Internal Auditing (Standards), as established by the Institute of Internal Auditors – requires the director of internal auditing to “establish a program for selecting and developing the human resources of the internal auditing department.”

**Standard 220 ~ Knowledge, Skills and Disciplines** – requires the internal auditing department to possess or to “obtain the knowledge, skills, and disciplines needed to carry out its audit responsibilities.”

The expansion of audit services requires a staff with diverse experiences and skills and the ability to apply those skills throughout the audit process. Many auditors today are trained in accounting, economics and finance, as well as public administration, social sciences and law. Many have come from the private sector or have run small businesses. The skills and experiences of auditors include performance measurement, benchmarking, control self-assessment, activity-based costing, information technology, investigations and strategic planning. In addition to these technical skills, the OAG looks for people who care and have the courage and passion to make a difference.

In addition to developing our in-house talent, there is an increasing need for experienced recruits, as opposed to entry-level positions filled by recent college graduates. These experienced recruits need a broader range of skills, including information technology, systems design, and industrial engineering; and strong fundamental skills such as writing and reasoning to complement the accounting and financial skills of our office. The OAG can benefit from the cross-fertilization with individuals who have received training outside of City government. Due to our high turnover, a pipeline providing a ready source of candidates is an absolute necessity for the attainment of our goals and developing and maintaining a quality audit staff.

The OAG must be more involved in the recruitment process. A passive approach, which relies upon the resources of the Human Resources Department, has not provided sufficient numbers of individuals for the Office to meet its obligations. Our turnover rate has been very high, which is not uncommon for internal audit departments whose personnel are recruited by both internal and external organizations, particularly when the salary ranges are not competitive.

The Auditor General is actively recruiting audit personnel. The recent creation of the “Auditor” classifications, along with competitive salary ranges and relaxed residency requirements, has significantly improved our ability to recruit qualified professionals.

### **Provide Formal Training**

**Standard 210 of the Professional Practice of Internal Auditing** requires the internal auditing department to “provide assurance that the technical proficiency and educational background of internal auditors are appropriate for the audits to be performed.”

**Standard 270 of the Professional Practice of Internal Auditing** requires auditors to “maintain their technical competence through continuing education.”

The OAG plans to offer a minimum of forty hours of in-house training each year to OAG staff members. The training will cover financial related audit, Single Audit, performance audit and information technology audit issues. In addition, we will provide training related to fraud detection, technology issues, audit automation, ethical standards for auditors, control self-assessment, and other topics. OAG team members and the City’s external auditor will provide most of the training.

During our weekly "Lunch and Learn" sessions, we discuss topics relative to current audits, issues being addressed by City Council, performance auditing, control self-assessment, office procedures, as well as professional certification examination topics.

### **Encourage Professional Certification**

Seven of the fourteen OAG professional staff members now have certification as an accountant or auditor. The Auditor General is encouraging OAG team members to become Certified Internal Auditors or Certified Information Systems Auditors. The technical knowledge gained by studying and demonstrated by passing these examinations will not only benefit our Office and our City government, but will also enhance the careers of the individuals involved.

The OAG will continue to provide in-house training to our team members to facilitate their efforts to obtain professional certification.

### **Provide On the Job Training**

Due to recent retirements, transfers, and resignations, the OAG has no audit managers (head accountants) and one-half the appropriated level of senior auditors (principal accountants).

Also, due to a different emphasis in the past, most of our auditors have limited experience in performance auditing. The OAG will increase the proficiency of our audit staff in this critical area by assigning auditors with limited skills in performance auditing to work with auditors who have demonstrated proficiency in performance auditing.

In addition, we continue to lack the specialization necessary for some required audits. We plan to utilize specialists in transportation, workers' compensation, pension, human resources, franchise tax, information technology, and control self-assessment (CSA) to provide supervision and training to our auditors.

### **Expand the Ability of OAG Auditors to Investigate Fraud**

Investigation of wrongdoing is a traditional audit service, which the OAG needs to expand. The OAG must insure that auditors have the training and specialized forensic accounting skills to effectively investigate fraud. To enhance the impact of OAG investigations and maximize our returns to the City, the OAG has initiated a process by which we are changing from a reactive to a proactive organization. That is, we will identify potential problem areas and actively seek out indicators of fraud instead of waiting for allegations to be referred to us. If we continue to remain reactive, we may not devote our limited resources to the areas where we could be most effective on behalf of the City. We have begun the changeover to a proactive organization by targeting specific high-return, high-risk areas such as the City's bank accounts and procurement processes, as areas for audit. In addition, we are exploring the benefits of a fraud hotline to increase the OAG's access to information concerning improprieties.

The OAG's transition to an emphasis on performance audits has been slow and difficult. As depicted in the following schedule, a major problem the OAG is facing, in addition to an insufficient number of auditors, is the limited availability of supervision.

<u>Position Description</u>	<u>Years Experience</u>		
	<u>June, 1990</u>	<u>June, 1995</u>	<u>June, 2000</u>
Deputy Auditor General	25	30	8
Chief Auditor	Vacant	30	32
Head Accountant	33	38	Vacant
Head Accountant	25	22	Vacant
Principal Accountant	28	30	10
Principal Accountant	25	28	10
Principal Accountant	23	27	9
Principal Accountant	22	21	4
Principal Accountant	21	5	Vacant
Principal Accountant	20	5	Vacant
Principal Accountant	17	4	Vacant
Principal Accountant	2	Vacant	Vacant
Senior Accountant	16	21	26
Senior Accountant	16	19	24
Senior Accountant	14	7	14*
Senior Accountant	3	5	12
Senior Accountant	2	4	10
Senior Accountant	1	1	3
Senior Accountant	1	0	1
Senior Accountant	0	Vacant	Vacant
Senior Accountant	0	Vacant	Vacant
Total Years of Experience	---- 294 ===	---- 297 ===	---- 163 ===
Senior Accountants' Average Years Experience	6	8	13
Principal Accountants' Average Years Experience	20	17	8
Head Accountants' Average Years Experience	29	30	0
Number of Auditors	20	18	13

<u>Fiscal Year Ended June 30</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995 - 2001</u>
Budgeted Positions	35	30	28	27	26

As shown above, this Office's budgeted positions have been reduced by approximately twenty-five percent over the last ten fiscal years.

\* Recently hired auditor with experience external to the City of Detroit

## **Goal # 2: Improve the Quality and Timeliness of Audit Reports**

Timeliness of audit reports continues to be an area of weakness for the OAG. The usefulness of audit reports is directly related to their timeliness.

Timeliness of audit services has always been important to local governments. Indeed, the U.S. General Accounting Office's (GAO) generally accepted government auditing standards (*Yellow Book*) for performance audits require timeliness of reporting. In addition, there is an increased expectation for auditors to provide fast turnarounds to requests from government officials and the public.

The OAG plans to improve the quality and timeliness of audit reports by:

- Making timely issuance of audit reports priority number one
- Instituting exception based testing
- Increasing the utilization of computer assisted audit tools and techniques (CAATTs)
- Streamlining reports
- Reforming the report review process
- Instituting a quality assurance component into the audit process

Ensuring the quality of audit work is a high priority in the OAG. We have established a quality assurance function to be utilized after every audit. The benefits derived are the assurance that Government Auditing Standards are met and that the OAG will be prepared for a peer review in two years. Also, the auditors who perform the internal quality review are better prepared to incorporate quality into their audit work as a result of their participating in the quality review process.

Conformance with government auditing standards allows a degree of flexibility that will allow the OAG to improve the timeliness and the quality of our audits. The OAG plans to reduce the time requirements for our fieldwork by incorporating the following "best practices" into the audit process where applicable:

- Not testing controls for which there are no risks
- Not conducting long audits without significant findings
- Flexible audit programs
- Control self-assessment

Also, future annual audit plans will result from the prioritization of audits, based on high-risk and critical business concerns. These audit plans will require the approval of City Council since low-risk audits will be scheduled on a less frequent basis than the two-year cycle that is otherwise required.

Adherence to professional auditing standards ensures audit quality, professional objectivity, and credibility. Like many local government auditing organizations, the OAG uses the generally accepted government auditing standards as promulgated in the GAO's *Yellow Book*.

**Goal # 3: Conduct Comprehensive Annual Financial Report (CAFR)  
Readiness Audits of Troubled or Historically Slow Agencies**

Beginning in July 2000, we will request monthly bank reconciliations from City agencies throughout the year. We will review the reconciliations to ensure they have been prepared appropriately, including verification of and review of the reasonableness of reconciling items, and the journalizing of reconciling items.

We will also request a schedule of interfund receivables and payables from the Finance Department on a monthly basis to determine whether they are in balance.

In addition, we will determine whether City departments, which have separately audited financial statements, are completing the schedules needed for financial statement preparation and for audit review on a timely basis. We will also begin monitoring contracts with outside auditors to ensure they include appropriate deadlines, and that work plans facilitate meeting those deadlines.

Finally, we will begin monitoring, on a monthly basis, the reconciliation of the subsidiary ledgers to the general ledger control accounts for Water Department receivables for both suburban and City customers.

**Goal # 4: Complete a Minimum of Ten Performance Audits  
and Ten Financial Related Audits in the 2000 Calendar Year**

**2000 Performance Audits**

- Buildings and Safety Engineering Department
- Recreation Department
- Department of Transportation
- Human Resources Department
- Public Lighting Department Procurement Process
- Finance Department - Accounts Payable Division
- Telecommunications
- Empowerment Zone Development Corporation
- Empowerment Zone Programs
- DRMS
- Workers' Compensation Claims Processing

**2000 Financial Related Audits**

- Utility Users Tax
- City Bank Accounts
- Civic Center Department
- Comprehensive Annual Financial Report (CAFR) readiness audits
- Cultural Affairs Department
- Finance Department – Accounts Division
- Finance Department – Income Tax Division
- Finance Department – Pension Division
- Finance Department – Treasury Division
- Zoological Institute

**2000 Follow-up Audits**

- Planning and Development Department Follow-up
- Fire Department Follow-up

**2000 Other**

- Analysis of Mayor's Proposed Budget
- Trends in Detroit's Finances
- Towing Rate Commission Report
- Vehicle For Hire Commission Report
- Investigation of Procurement Policy Noncompliance (new)
- Special Review - Police Department Helicopters
- Analysis of Public Lighting Department Mistersky Plant Modernization Program
- Special Projects



**Goal # 5: Complete a Minimum of Ten Performance Audits  
and Ten Financial Related Audits in the 2001 Calendar Year**

**2001 Performance Audits**

- Accounts Payable Process
- Health Department
- Housing Commission
- Finance Department - Collections Unit
- Procurement Process
- Budgetary Process
- Information Technology Systems Department
- DRMS
- Empowerment Zone Development Corporation
- Empowerment Zone Programs

**2001 Financial Related Audits**

- Utility Users Tax
- City Bank Accounts
- Comprehensive Annual Financial Report (CAFR) readiness audits
- Human Services Department
- Environmental Affairs Department
- Department of Public Works
- Youth Department
- 36<sup>th</sup> District Court
- Police Department
- Police Secret Service Fund
- Public Lighting Department
- Water & Sewerage Department
- Law Department
- Senior Citizens Department
- GASB # 34 Readiness

**2001 Follow-up Audits**

- Buildings and Safety Engineering Department
- Recreation Department
- Department of Transportation
- Human Resources Department
- Public Lighting Department Procurement Process
- Finance Department - Accounts Payable Division
- Workers' Compensation Claims Processing

**2001 Other**

- Analysis of Mayor's Proposed Budget
- Trends in Detroit's Finances
- Control Self-Assessment
- Service Efforts and Accomplishments Report
- Special Projects

**Goal # 6: Identify a Minimum of \$10 Million of Annual Expense Reductions  
or Additional Revenue/Collection Opportunities for the City**

We have identified several areas that offer potentially significant cost savings or additional revenue (or collection) opportunities for the City. We will make recommendations to the Mayor based on audit results in the following areas:

<b><u>Areas of Opportunity</u></b>	<b><u>Year</u></b>
Buildings and Safety Engineering	2000
Department of Transportation	2000
Telecommunications	2000
Workers' Compensation Claims Processing	2000
Utility Users Tax	2000 and 2001
Accounts Payable	2000 and 2001
Finance – Collections Unit	2001

## **IV**

### **APPENDICES**

## **APPENDIX A**

### **CHARTER MANDATES**

#### **Sec. 4-201. Auditor General.**

The Auditor General shall be appointed by a majority of City Council members serving. The Auditor General shall be a certified public accountant.

#### **Sec. 4-202. Deputy Auditor General.**

The Auditor General shall appoint a deputy who during periods of the Auditor General's absence or temporary disability or when the position is vacant shall exercise the powers and perform the duties of the Auditor General to the full extent permitted by law. The Deputy Auditor General shall be a certified public accountant. The Deputy Auditor General serves at the pleasure of the Auditor General.

#### **Sec. 4-203. Term of Office.**

The term of the Auditor General is ten (10) years beginning with the taking of office. The Auditor General may be removed for cause by a two-thirds (2/3) majority of City Council members serving. Any person who has held the position of Auditor General is not eligible for re-appointment.

#### **Sec. 4-204. Employees.**

In accordance with article 6, chapter 5, the Auditor General may hire, promote, discipline and remove employees of the agency, assign duties to the employees, and supervise the performance of those duties.

#### **Sec. 4-205. Powers and Duties.**

The Auditor General shall:

1. Make audits of the financial transactions of all City agencies at least once every two years or as otherwise directed by the City Council. The Auditor General shall have access to the financial and other records of all City agencies at any time.
2. Make a full report to the City Council of each individual audit and file a copy with the Mayor.
3. As soon as possible after the close of each fiscal year, make a report of the financial position of the City. The report shall be a public record.
4. Investigate the administration and operation of any City agency and report findings and recommendations to the City Council and the Mayor. The Auditor General may request and shall be given necessary assistance and information by each agency. The Auditor General may subpoena witnesses, administer oaths, take testimony, require the production of evidence relevant to a matter under investigation, enter and inspect premises within the control of any agency during regular business hours.

To enforce a subpoena or order for production of evidence or to impose any penalty prescribed for failure to obey a subpoena or order, the Auditor General shall apply to the appropriate court.

## **APPENDIX A (continued)**

5. From time to time make reports to City agencies of irregularities of practice and erroneous accounting methods with recommendations for improving the accounting procedures and systems of the agencies.

Recommendations which are not put into effect by the agency shall be reviewed by the Finance Director, who shall advise the Auditor General and the City Council of action being taken with respect to the recommendations.

6. Upon request of the Budget Director, make available to the Budget Director all information useful in the preparation of the capital agenda or annual budget.
7. Settle all disputed claims in favor of or against the City to the extent and in the manner provided by ordinance. All appeals from determinations made by the Auditor General shall be brought in the court provided by law. However, no proceedings may be brought upon a claim within the jurisdiction of the Auditor General until the claim is rejected by the Auditor General or until six (6) months have elapsed from the time of filing the claim with the Auditor General.

### **Sec. 4-206. Limitations.**

The Auditor General may hold no other city, county or state office.

Except as otherwise provided in this Charter, the Auditor General shall not have any connection with any City agency, nor be custodian of any cash or securities belonging to the City other than the appropriation to the office.

## **APPENDIX B**

### **SCOPE OF THE OAG's OPERATIONS**

The scope of the OAG's operations encompasses the examination and evaluation of the adequacy and effectiveness of our City government's system of internal control and the quality of performance in carrying out assigned responsibilities. This includes:

- Reviews of the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information;
- Reviews of the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations that could have a significant impact on operations and reports, and a determination of whether the organization is in compliance;
- Reviews of the means of safeguarding assets and, as appropriate, verification of the existence of such assets;
- Appraisals of the economy and efficiency with which resources are employed;
- Reviews of operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.

**APPENDIX C**  
**SUMMARY OF GENERAL AND SPECIFIC STANDARDS**  
**FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING**

100 **INDEPENDENCE** – INTERNAL AUDITORS SHOULD BE INDEPENDENT OF THE ACTIVITIES THEY AUDIT

110 **Organizational Status** – The organizational status of the internal auditing department should be sufficient to permit the accomplishment of its audit responsibilities.

120 **Objectivity** – Internal auditors should be objective in performing audits.

200 **PROFESSIONAL PROFICIENCY** – INTERNAL AUDITS SHOULD BE PERFORMED WITH PROFICIENCY AND DUE PROFESSIONAL CARE.

**The Internal Auditing Department**

210 **Staffing** – The internal auditing department should provide assurance that the technical proficiency and educational background of internal auditors are appropriate for the audits to be performed.

220 **Knowledge, Skills and Disciplines** – The internal auditing department should possess or should obtain the knowledge, skills, and disciplines needed to carry out its audit responsibilities.

230 **Supervision** – The internal auditing department should provide assurance that internal audits are properly supervised.

240 **Compliance with Standards of Conduct** – Internal auditors should comply with professional standards of conduct.

250 **Knowledge, Skills, and Disciplines** – Internal auditors should possess the knowledge, skills, and disciplines essential to the performance of internal audits.

260 **Human Relations and Communications** – Internal auditors should be skilled in dealing with people and in communicating effectively.

270 **Continuing Education** – Internal auditors should maintain their technical competence through continuing education.

280 **Due Professional Care** – Internal auditors should exercise due professional care in performing internal audits.

## APPENDIX C (continued)

- 300 **SCOPE OF WORK** – THE SCOPE OF INTERNAL AUDITING SHOULD ENCOMPASS THE EXAMINATION AND EVALUATION OF THE ADEQUACY AND EFFECTIVENESS OF THE ORGANIZATION'S SYSTEM OF INTERNAL CONTROL AND THE QUALITY OF PERFORMANCE IN CARRYING OUT ASSIGNED RESPONSIBILITIES.
- 310 **Reliability and Integrity of Information** – Internal auditors should review the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.
- 320 **Compliance with Policies, Plans, Procedures, Laws, and Regulations** – Internal auditors should review the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on operations and reports, and should determine whether the organization is in compliance.
- 330 **Safeguarding of Assets** – Internal auditors should review the means of safeguarding assets and, as appropriate, verify the existence of such assets.
- 340 **Economical and Efficient Use of Resources** – Internal auditors should appraise the economy and efficiency with which resources are employed.
- 350 **Accomplishment of Established Objectives and Goals for Operations or Programs** – Internal auditors should review operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
- 400 **PERFORMANCE OF AUDIT WORK** – AUDIT WORK SHOULD INCLUDE PLANNING THE AUDIT, EXAMINING AND EVALUATING INFORMATION, COMMUNICATING RESULTS, AND FOLLOWING UP.
- 410 **Planning the Audit** – Internal auditors should plan each audit.
- 420 **Examining and Evaluating Information** – Internal auditors should collect, analyze, interpret, and document information to support audit results.
- 430 **Communicating Results** – Internal auditors should report the results of their work.
- 440 **Following Up** – Internal auditors should follow up to ascertain that appropriate action is taken on reported audit findings.



## APPENDIX C (continued)

500 **MANAGEMENT OF THE INTERNAL AUDITING DEPARTMENT – THE DIRECTOR OF INTERNAL AUDITING SHOULD PROPERLY MANAGE THE INTERNAL AUDITING DEPARTMENT.**

510 **Purpose, Authority, and Responsibility** – The director of internal auditing should have a statement of purpose, authority, and responsibility for the internal auditing department.

520 **Planning** – The director of internal auditing should establish plans to carry out the responsibilities of the internal auditing department.

530 **Policies and Procedures** – The director of internal auditing should provide written policies and procedures to guide the audit staff.

540 **Personnel Management and Development** – The director of internal auditing should establish a program for selecting and developing the human resources of the internal auditing department.

550 **External Auditors** – The director of internal auditing should coordinate internal and external audit efforts.

560 **Quality Assurance** – The director of internal auditing should establish and maintain a quality assurance program to evaluate the operations of the internal auditing department.

**APPENDIX D**  
**THE INSTITUTE OF INTERNAL AUDITORS**  
**CODE OF ETHICS**

The standards of conduct set forth in this *Code of Ethics* provide basic principles in the practice of internal auditing.

**STANDARDS OF CONDUCT**

- I. Members and CIAs shall exercise honesty, objectivity, and diligence in the performance of their duties and responsibilities.
- II. Members and CIAs shall exhibit loyalty in all matters pertaining to the affairs of their organization or to whomever they may be rendering a service. However, Members and CIAs shall not knowingly be a party to any illegal or improper activity.
- III. Members and CIAs shall not knowingly engage in acts or activities which are discreditable to the profession of internal auditing or to their organization.
- IV. Members and CIAs shall refrain from entering into any activity which may be in conflict with the interest of their organization or which would prejudice their ability to carry out objectively their duties and responsibilities.
- V. Members and CIAs shall not accept anything of value from an employee, client, customer, supplier, or business associate of their organization which would impair or be presumed to impair their professional judgment.
- VI. Members and CIAs shall undertake only those services which they can reasonably expect to complete with professional competence.
- VII. Members and CIAs shall adopt suitable means to comply with the Standards for the Professional Practice of Internal Auditing.
- VIII. Members and CIAs shall be prudent in the use of information acquired in the course of their duties. They shall not use confidential information for any personal gain nor in any manner which would be contrary to law or detrimental to the welfare of their organization.
- IX. Members and CIAs, when reporting on the results of their work, shall reveal all material facts known to them which, if not revealed, could either distort reports of operations under review or conceal unlawful practices.
- X. Members and CIAs shall continually strive for improvement in their proficiency, and in the effectiveness and quality of their service.
- XI. Members and CIAs, in the practice of their profession, shall be ever mindful of the obligation to maintain the high standards of competence, morality, and dignity promulgated by the Institute. Members shall abide by the *Bylaws* and uphold the objectives of the Institute.

**APPENDIX E**  
**IDENTIFICATION OF AUDITABLE UNITS**

Auditable units, consisting of City agencies and divisions or operations, selected by the OAG for financial related audits are listed in the following chart:

<b><i>36<sup>th</sup> District Court</i></b>	<b><i>Finance – Treasury Division</i></b>
<b><i>Airport</i></b>	<b><i>Fire</i></b>
<b><i>Arts</i></b>	<b><i>GDDRA</i></b>
<b><i>Auditor General</i></b>	<b><i>Health</i></b>
<b><i>Budget</i></b>	<b><i>Historical</i></b>
<b><i>Building &amp; Safety Engineering</i></b>	<b><i>Housing</i></b>
<b><i>City Clerk</i></b>	<b><i>Human Resources</i></b>
<b><i>City Council</i></b>	<b><i>Human Rights</i></b>
<b><i>Civic Center</i></b>	<b><i>Human Services</i></b>
<b><i>Communications and Creative Services</i></b>	<b><i>Information Technology Services</i></b>
<b><i>Consumer Affairs</i></b>	<b><i>Law</i></b>
<b><i>Cultural Affairs</i></b>	<b><i>Library</i></b>
<b><i>Department of Public Works</i></b>	<b><i>Mayor</i></b>
<b><i>Department of Transportation</i></b>	<b><i>Municipal Parking</i></b>
<b><i>Detroit Building Authority</i></b>	<b><i>Museum of African American History</i></b>
<b><i>Detroit Transportation Corporation</i></b>	<b><i>Ombudsperson</i></b>
<b><i>EDC, DEGC, DDA</i></b>	<b><i>Planning &amp; Development</i></b>
<b><i>Elections</i></b>	<b><i>Police Department</i></b>
<b><i>Employment and Training</i></b>	<b><i>Police Drug Forfeiture Fund</i></b>
<b><i>Environmental Affairs</i></b>	<b><i>Police Secret Service Fund</i></b>
<b><i>Finance – Accounts Division</i></b>	<b><i>Public Lighting</i></b>
<b><i>Finance – Accounts Payable Division</i></b>	<b><i>Recreation</i></b>
<b><i>Finance – Assessments Division</i></b>	<b><i>Senior Citizens</i></b>
<b><i>Finance – Central Payroll Process</i></b>	<b><i>Water &amp; Sewerage</i></b>
<b><i>Finance – Income Tax Division</i></b>	<b><i>Youth</i></b>
<b><i>Finance – Departmental Payroll</i></b>	<b><i>Board of Zoning Appeals</i></b>
<b><i>Finance – Pensions Division</i></b>	<b><i>Zoological Institute</i></b>
<b><i>Finance – Purchasing Division</i></b>	

## APPENDIX F

### THE CIA DESIGNATION

CIA is the acronym for Certified Internal Auditor. The CIA, CISA (Certified Information Systems Auditor), and CPA (Certified Public Accountant) are the three primary professional designations within the auditing profession in the United States.

The CIA designation, granted by the Institute of Internal Auditors (IIA), is international, with the examination administered in numerous countries. Just as the CPA examination tests competency in public accounting, the CIA examination reflects the current state of the art in internal auditing; and evaluates technical competence in seventeen subject areas related to internal auditing.

The CIA examination measures basic technical competence, including:

1. Technical knowledge and the application of such knowledge
2. Understanding of professional responsibilities
3. Exercise of good judgment

The fourteen-hour examination, administered over a two-day period, contains subject matter coverage as set forth in the table below. The percentage coverage of each exam part is indicated to the right of each topic.

#### Part I: Internal Audit Process:

##### Auditing (65-75%)

- Nature of Internal Auditing in Profit, Not-for-Profit, and Governmental Entities
- Internal Control Concepts
- Administration of the Internal Auditing Assignment
- Auditing the Activities of Organizations
- Auditing the Efficiency of Operations and Programs
- Audit Evidence
- Information Technology Auditing

##### Professionalism (10-20%):

- Professional Standards
- The IIA Code of Ethics

##### Fraud (10-20%)

#### Part II: Internal Audit Skills:

##### Problem Solving Skills (30-40%)

##### Communication Skills (30-40%)

##### Behavioral Skills (10-20%)

##### Statistics (10-20%)

#### Part III: Management Control and Information

##### Technology:

##### Organization and Management (35-45%)

##### Information Technology (35-45%)

##### Managerial Accounting (10-20%)

##### Quantitative Methods (0-10%)

#### Part IV: The Audit Environment:

##### Financial Accounting (35-45%)

##### Finance (35-45%)

##### Economics (5-15%)

##### International Government (5-10%)

##### Tax (0-5%)

##### Marketing (5-10%)

In addition to the four-part exam, the requirements of the IIA's CIA program include high standards of character, education, and experience. There are about thirty thousand Certified Internal Auditors worldwide.

The Institute of Internal Auditors (IIA), established in 1941, is an international professional association. The IIA has more than sixty-six thousand members in internal auditing, governance, internal control, information technology auditing, education, and security. With representation in more than one hundred countries, the Institute is the acknowledged leader in certification, education, research, and technological guidance for the profession worldwide.

## **APPENDIX G**

### **THE CISA DESIGNATION**

CISA is the acronym for Certified Information Systems Auditor. The CISA, CIA (Certified Internal Auditor) and CPA (Certified Public Accountant) are the three primary professional designations within the auditing profession in the United States.

The CISA designation is the globally accepted standard of achievement among information systems (IS) auditors. Possessing the CISA designation demonstrates proficiency and is the basis for measurement in the profession of information systems auditing.

To earn the CISA designation, candidates are required to have a minimum of five years of professional IS auditing experience and successfully complete the CISA examination.

The CISA examination tests the candidate's understanding, evaluation and application of:

- Generally accepted IS audit standards, statements, and practices; and IS security and control practices
- IS strategies, policies and procedures; management practices; and organizational structures
- IS processes, including hardware and software platforms; network and telecommunication infrastructure operational practices; utilization of IS resources and business processes
- Logical, physical, environmental data validation; processing and balancing controls; and the business continuity planning and testing process
- IS development, acquisition and maintenance

The CISA examination is administered by the Information Systems Audit and Control Association (ISACA). ISACA is a professional organization with some fifteen thousand members worldwide. Continuing professional education (CPE) requirements for certified information systems auditors are eighty CPE hours biennially, similar to the requirements for CPAs and CIAs.

## APPENDIX H

### INTERNAL AUDITING AND TYPES OF GOVERNMENTAL INTERNAL AUDITS

#### Internal Auditing

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The OAG believes that the City is best served by a fully resourced and professionally competent internal auditing staff that provides value-added services that are critical to the efficient and effective management of our government.

#### Financial Related Audits

Financial related audits include determining whether (1) financial information is presented in accordance with established or stated criteria; (2) the entity has adhered to specific financial compliance requirements; or (3) the entity's internal control structure over financial reporting and/or safeguarding assets is suitably designed and implemented to achieve the control objectives.

Financial related audits may, for example, include audits of the following items:

- a. Segments of financial statements; financial information (for example, statement of cash receipts and disbursements); budget requests; and variances between estimated and actual financial performance.
- b. Internal controls over compliance with laws and regulations, such as those governing the (1) bidding for, (2) accounting for, and (3) reporting on grants and contracts (including proposals, amounts billed, and so forth).
- c. Internal controls over financial reporting and/or safeguarding assets, including controls using computer-based systems.
- d. Compliance with laws and regulations and allegations of fraud.

#### Performance Audits

A performance audit is an objective and systematic examination of evidence for the purpose of providing an independent assessment of the performance of a government organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision-making by parties with responsibility to oversee or initiate corrective action. Performance audits include **economy and efficiency** and **program** audits.

## APPENDIX H (continued)

**Economy and efficiency audits** include determining (1) whether the entity is acquiring, protecting, and using its resources (such as personnel, property, and space) economically and efficiently, (2) the causes of inefficiencies or uneconomical practices, and (3) whether the entity has complied with laws and regulations on matters of economy and efficiency. Economy and efficiency audits may, for example, consider whether the entity:

- a. is following sound procurement practices;
- b. is acquiring the appropriate type, quality, and amount of resources at an appropriate cost;
- c. is properly protecting and maintaining its resources;
- d. is avoiding duplication of effort by employees and work that serves little or no purpose;
- e. is avoiding idleness and overstaffing;
- f. is using efficient operating procedures;
- g. is using the optimum amount of resources (staff, equipment, and facilities) in producing or delivering the appropriate quantity and quality of goods or services in a timely manner;
- h. is complying with requirements of laws and regulations that could significantly affect the acquisition, protection, and use of the entity's resources;
- i. has an adequate management control system for measuring, reporting, and monitoring a program's economy and efficiency; and
- j. has reported measures of economy and efficiency that are valid and reliable.

**Program audits** include determining (1) the extent to which the desired results or benefits established by the legislature or other authorizing body are being achieved; (2) the effectiveness of organizations, programs, activities, or functions; and (3) whether the entity has complied with significant laws and regulations applicable to the program. Program audits may, for example:

- a. assess whether the objectives of a new, or ongoing program are proper, suitable, or relevant;
- b. determine the extent to which a program achieves a desired level of program results;
- c. assess the effectiveness of the program and/or of individual program components;
- d. identify factors inhibiting satisfactory performance;
- e. determine whether management has considered alternatives for carrying out the program that might yield desired results more effectively or at a lower cost;
- f. determine whether the program complements, duplicates, overlaps, or conflicts with other related programs;
- g. identify ways of making programs work better;
- h. assess compliance with laws and regulations applicable to the program;
- i. assess the adequacy of the management control system for measuring, reporting, and monitoring a program effectively; and
- j. determine whether management has reported measures of program effectiveness that are valid and reliable.

## **APPENDIX H (continued)**

### **Investigations and Special Reviews**

Investigations and special reviews are limited scope audits and involve the examination of specific components of an operation or a fund, rather than a more comprehensive review. These limited scope audits may result from City Council requests, newspaper reports, and information received from City employees, vendors, or citizens.

### **Analyses**

Analyses include compilations and research, often utilizing data provided by others, for the purpose of collecting, comparing and reporting on programs and activities or funds. Analyses may result from requests by City Council, agencies, or citizens.

### **Follow-up Audits**

Follow-up audits are limited scope reviews performed six to twelve months after the release date of an audit report. The purpose of the follow-up audit is to determine the progress the auditee has made to comply with recommendations; and to provide users of the audit report with timely information.



## APPENDIX I

### THE PEER REVIEW

#### **Introduction**

Professional standards for conducting audits in government have been promulgated by the Comptroller General of the United States and published in a book titled Government Auditing Standards, known in the auditing profession as the “Yellow Book.” One requirement of Government Auditing Standards is that audit organizations receive an external quality control review (peer review) at least once every three years.

#### **The Peer Review Process**

The peer review process consists of a team of audit professionals, external to the organization being reviewed, assessing the adequacy of the organization’s internal quality control system and its overall level of compliance with Government Auditing Standards. There are three phases to the review: (1) preparation, (2) the site visit, and (3) reporting.

*Preparation.* The organization provides the review team with background information and a description of its quality control system.

*The Site Visit.* The review team spends about a week on-site at the audit organization’s offices, reviewing audit working papers and administrative files, and interviewing audit management and staff.

*Reporting.* At the conclusion of the site visit, the review team prepares a report containing its opinion regarding the organization’s compliance with Government Auditing Standards. When appropriate, the team also prepares a letter to management that discusses deficiencies found and recommendations for needed improvements.

## **APPENDIX J**

### **CONTROL SELF-ASSESSMENT**

Control Self-Assessment (CSA) is defined as a formal, documented process in which the management and/or work teams directly involved in a business function judge the effectiveness of the process in place and decide whether the choice of reaching some or all business objectives is reasonably assured.

The primary objective associated with adopting a CSA program is to leverage the internal audit function by shifting some of the control monitoring responsibilities to the functional areas. It is not intended to replace the OAG's responsibilities, but to enhance them. Our customers are responsible for controls in their environment; they should also be responsible for monitoring them.

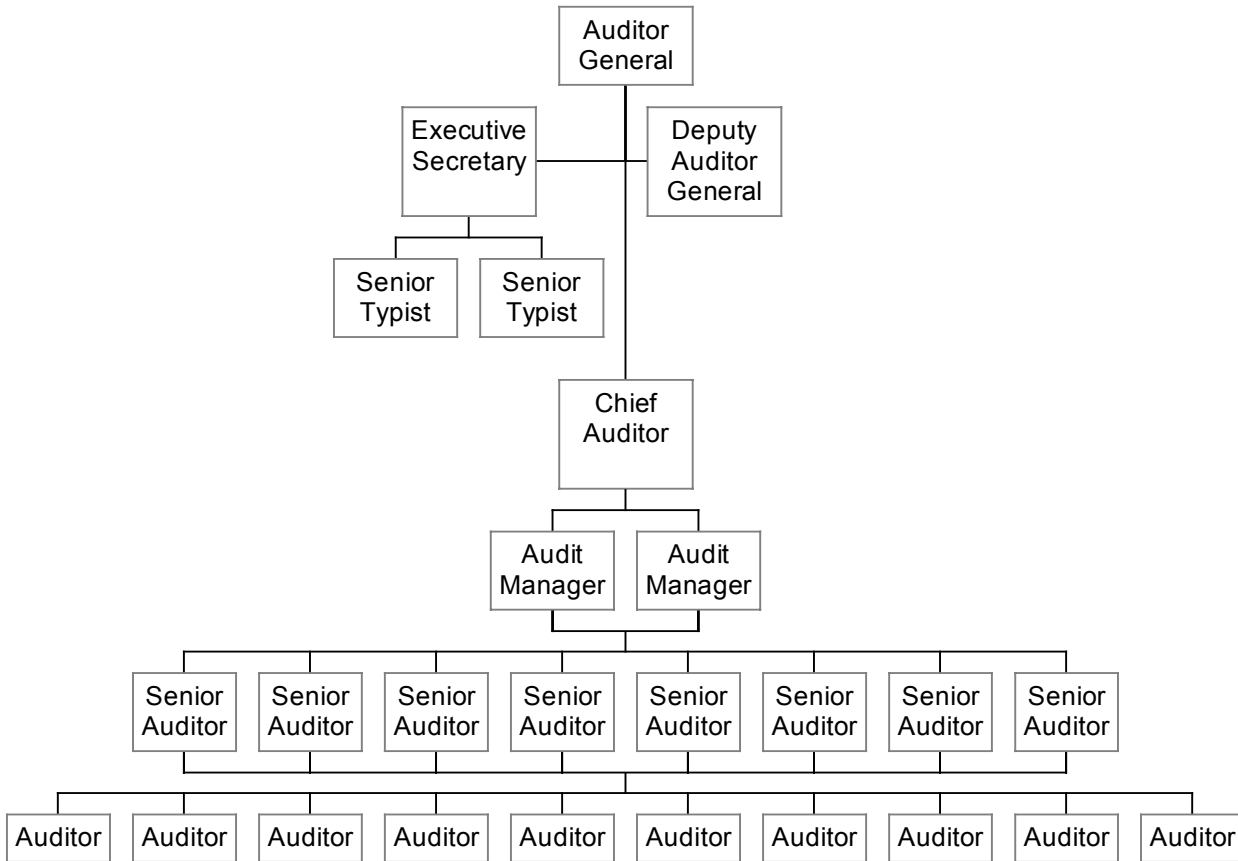
The OAG does not give up any functions when it embarks on a CSA program. Instead, auditors add to their role by becoming internal control professionals and assessment facilitators. Under CSA, auditors facilitate the improvements and monitoring carried out by their clients.

By implementing CSA, the OAG becomes an active participant in the City's Goal Based Governance policy, and therefore should not be evaluated solely on findings and recommendations, but also on the improvements and monitoring carried out by Departments due to our facilitation.

The process involves conducting workshop sessions attended by staff within natural work units, or with responsibility for particular functions. During the workshops, facilitated by internal audit staff, participants systematically evaluate how well important activities are carried out, how performance is measured, and what opportunities exist for improvements.

As evident from the above description, CSA is consistent with goal based governance and will serve to enhance the effectiveness of the Mayor's goal based governance objectives.

**APPENDIX K  
OFFICE OF THE AUDITOR GENERAL  
ORGANIZATIONAL CHART**



**APPENDIX L**  
**CITY OF DETROIT AUDITORS GENERAL**  
**HISTORICAL LISTING**

July 1, 1937	to	July 31, 1944	George Engel
August 1, 1944	to	July 31, 1954	James Tobin
August 1, 1954	to	July 31, 1964	David Addy
September 29, 1964	to	August 23, 1968	Phillip Mackinder
October 27, 1969	to	March 5, 1975	Victor McCormick
March 25, 1975	to	December 5, 1984	Marie Farrell-Donaldson
May 20, 1985	to	June 1, 1995	Roger Short
December 4, 1995	to	Present	Joseph L. Harris